

**Kalamazoo Community
Mental Health and
Substance Abuse Services**

**Financial Statements
and Supplemental Material**

Years Ended September 30, 2004 and 2003

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Kalamazoo Community Mental Health and Substance	County Kalamazoo
Audit Date 9/30/04	Opinion Date 1/27/05	Date Accountant Report Submitted to State: Abuse Services	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).	✓		

Certified Public Accountant (Firm Name) BDO Seidman, LLP			
Street Address 211 E. Water Street, Suite 300		City Kalamazoo	State MI
Accountant Signature <i>Christy Daniel</i>		ZIP 49007	Date 3/22/05

Kalamazoo Community Mental Health and Substance Abuse Services

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Independent Auditors' Report

Kalamazoo Community Mental Health and Substance Abuse Services
Kalamazoo, Michigan

We have audited the accompanying financial statements of Kalamazoo Community Mental Health and Substance Abuse Services (the Authority), a proprietary fund component unit of the County of Kalamazoo, Michigan, as of and for the years ended September 30, 2004 and 2003, as listed in the accompanying table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority, as of September 30, 2004 and 2003, and the changes in financial position and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2005, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and the Analysis of Funding Progress – Employee Retirement System information are not a required part of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards and Schedule of Federal Pass-Through Funds to Subrecipients, as required by U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the Substance Abuse Prevention and Treatment Summary of Budgeted, Reported, and Audited Amounts and Schedule of Expenditures and Funding Sources by Program are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

BDO Seidman, LLP

Certified Public Accountants

January 27, 2005

Management's Discussion and Analysis

The following Management Discussion and Analysis (MD&A) of Kalamazoo Community Mental Health and Substance Abuse Services (the Authority's) activities and financial performance provide an introduction to the financial statements of the Authority for the fiscal year ended September 30, 2004. The Authority has been established by the state of Michigan and the County of Kalamazoo to operate, control, and manage an integrated behavioral healthcare and substance abuse system in order to better serve its residents. The County Board of Commissioners appoints members to the Authority's board and provides financial support to the Authority on an annual basis. The Authority is considered a component unit for reporting purposes in the audit for the County of Kalamazoo.

The information contained in this MD&A should be considered in conjunction with the information contained in the financial statement audit conducted by BDO Seidman, LLP, for the year ended September 30, 2004. This MD&A contains information on the basic financial statements of the Authority together with any required explanation, which would be essential to acquire a full understanding of the data contained therein.

FINANCIAL POSITION SUMMARY

Analysis of assets, liabilities and net assets over time serves as a useful indicator of the Authority's financial position. The Authority's working capital, current assets of \$17,841,178 minus current liabilities of \$10,024,391 is positive at \$7,816,787. Additionally, the computation for net assets, total assets of \$20,869,635 minus total liabilities of \$10,800,648, is also significantly positive at \$10,068,987 for the year ended September 30, 2004. This represents a positive increase of net assets for the year ended September 30, 2004 of \$818,877, or an increase of 8.8% over prior year ended September 30, 2003. See Note 11 to the financial statements regarding prior year adjustments to net assets.

A condensed summary of the Authority's balance sheet is shown below:

<i>September 30,</i>	<i>2004</i>	<i>2003</i>
Assets:		
Current	\$ 17,841,178	\$ 13,899,790
Net capital assets	2,862,695	3,062,359
Net loan origination costs	16,733	18,989
Long-term advances	149,029	918,140
Total Assets	20,869,635	17,899,278
Liabilities:		
Current liabilities	10,024,391	7,765,456
Long-term debt	776,257	883,712
Total Liabilities	10,800,648	8,649,168
Net Assets:		
Invested in capital assets, net of related debt	1,978,983	2,076,628
Unrestricted	8,090,004	7,173,482
Total Net Assets	10,068,987	9,250,110
Total Liabilities and Net Assets	\$ 20,869,635	\$ 17,899,278

The largest portion of the Authority's net assets (80.3% at September 30, 2004) represents its investment in reserves for equipment, employee retirement benefits, and managed care risk corridor. Investment in capital assets net of outstanding mortgage debt is 19.7% of net assets.

Management's Discussion and Analysis (Continued)

REVENUES

A summary of operating revenues for the fiscal year ended September 30, 2004, and the amount and percentage of change in relation to prior year amounts is as follows:

	<i>2004 Amount</i>	<i>Percent of Total</i>	<i>Increase (Decrease) from 2003</i>	<i>Percent Increase (Decrease)</i>
	\$	%	\$	%
Operating Revenues:				
Medicaid Revenue:				
Retained by PIHP	35,179,115	42.6	1,142,095	3.3
Sub-capitated	26,159,196	31.7	(1,760,530)	(6.3)
General Fund/Other Revenues:				
State grants	13,091,355	15.9	260,318	2.0
Program fees and earned revenue	1,014,170	1.2	(1,402,999)	(58.0)
Federal grants	1,036,787	1.3	378,364	57.4
Other	585,098	0.7	132,838	29.4
Substance Abuse Revenue	5,482,842	6.6	57,405	1.0
Total Operating Revenues	82,548,563	100.0	(1,192,509)	(1.4)

EXPENSES

A summary of operating expenses for the fiscal year ended September 30, 2004, and the amount and percentage of change in relation to prior year amounts is as follows:

	<i>2004 Amount</i>	<i>Percent of Total</i>	<i>Increase (Decrease) from 2003</i>	<i>Percent Increase (Decrease)</i>
	\$	%	\$	%
Operating Expenses:				
MI adult population	21,594,193	25.9	(621,686)	(2.8)
DD population	20,992,959	25.1	434,779	2.1
SED population	5,167,849	6.2	(4,953)	(0.0)
Substance abuse expense	5,466,662	6.6	176,667	3.3
Sub-capitated expense	26,088,382	31.3	(916,076)	(3.4)
Management and general	4,066,296	4.9	544,667	15.5
Total Operating Expenses	83,376,341	100.0	(386,602)	(0.5)

<i>Fiscal Year Ended September 30,</i>	<i>2004</i>	<i>2003</i>
Operating loss	\$ (827,778)	\$ (21,871)
Net non-operating revenue	96,255	114,133
Kalamazoo County transfer	1,550,400	1,550,400
Increase in Net Assets	818,877	1,642,662
Net Assets, beginning of year, as restated	9,250,110	7,565,118
Equity Transfer from Kalamazoo County	-	42,330
Net Assets, end of year	\$ 10,068,987	\$ 9,250,110

Management's Discussion and Analysis (Concluded)

FINANCIAL OPERATIONS HIGHLIGHTS

- FY03/04 saw many organizational changes. The most significant of which was the transition of MIA case management, OBRA, and nursing and diagnostic activities from direct operated programs to community or provider based programs. This resulted in the elimination of approximately 25 positions. Many of these positions were absorbed by community providers.
- Along with this restructuring, the Authority offered an early retirement program to its employees. The incentives offered included a reduction in the years of service/age requirements for those qualified and a reduction in the number of years used to calculate the average compensation at retirement age from five to three years. This resulted in approximately 15 individuals taking the early retirement option.
- The early retirement option left several key senior management positions with vacancies. Many of these were filled internally or the duties given to other qualified staff. Additionally, the position of Chief Administrative and Financial Officer was filled.
- The state of Michigan changed its methodology for revenue payment and revenue and expense reporting to all of its PIHP organizations. This change resulted in the separation of the funding stream by source of revenue and expense for the Authority's entire service array.
- The Authority also secured additional federal funding through HUD grants for housing assistance during the year. This resulted in an increase of 8.9% or slightly over \$350,000 of additional funding.

SUMMARY OF CASH FLOW ACTIVITIES

The following shows a two year comparison of the major sources and uses of cash:

<i>Fiscal Year Ended September 30,</i>	<i>2004</i>	<i>2003</i>
Net cash provided by (used in) operating activities	\$ 3,382,936	\$ (2,127,443)
Net cash provided by non-capital financing activities	1,550,400	1,592,730
Net cash (used in) provided by investing activities	(4,583,580)	946,174
Net cash used in capital and related financing activities	(215,197)	(449,331)
Increase (Decrease) in Cash	134,559	(37,870)
Cash, beginning of year	61,720	99,590
Cash, end of year	\$ 196,279	\$ 61,720

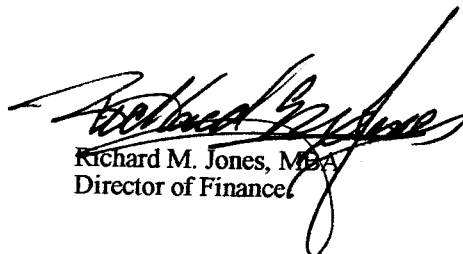
FINANCIAL STATEMENTS

The Authority's financial statements are prepared on an accrual basis in accordance with accounting principles generally accepted in the United States of America promulgated by the Government Accounting Standards Board (GASB). The Authority also follows where appropriate, statements and interpretations by the Financial Accounting Standards Board (FASB). Revenues are recognized when earned, not when received. Expenses are recognized when incurred, not when paid. Assets are capitalized and depreciated over their useful lives. Please see the notes to the financial statements for a summary of the Authority's significant accounting policies.

Respectfully submitted,



Cindy Lowe
Chief Administrative and Financial Officer



Richard M. Jones, MBA
Director of Finance

Kalamazoo Community Mental Health and Substance Abuse Services

Statements of Net Assets

<i>September 30,</i>	<i>2004</i>	<i>2003</i>
Current Assets:		
Cash (Note 3)	\$ 196,279	\$ 61,720
Investments (Note 3)	15,271,551	10,541,191
Receivables:		
Medicaid	397,485	385,231
Client service	781,513	1,902,205
Other	26,443	-
Due from state of Michigan	964,411	778,674
Prepaid and other current assets	203,496	230,769
Total Current Assets	17,841,178	13,899,790
Capital Assets, net of accumulated depreciation (Note 4)	2,862,695	3,062,359
Loan Origination Costs,		
net of accumulated amortization of \$5,828	16,733	18,989
Long-Term Advances to Sub-Recipient Agencies	149,029	918,140
Total Assets	\$ 20,869,635	\$ 17,899,278
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable and accruals	\$ 7,580,423	\$ 5,159,616
Due to state of Michigan	1,071,933	931,629
Deferred revenue	1,264,580	1,572,192
Current maturities of long-term debt (Note 5)	107,455	102,019
Total Current Liabilities	10,024,391	7,765,456
Long-Term Debt, net of current maturities (Note 5)	776,257	883,712
Total Liabilities	10,800,648	8,649,168
Commitments (Notes 7, 8, 9, and 10)		
Net Assets (Note 6):		
Invested in capital assets, net of related debt	1,978,983	2,076,628
Unrestricted	8,090,004	7,173,482
Total Net Assets	10,068,987	9,250,110
Total Liabilities and Net Assets	\$ 20,869,635	\$ 17,899,278

See accompanying notes to financial statements.

Kalamazoo Community Mental Health and Substance Abuse Services

Statements of Revenues, Expenses, and Changes in Net Assets

<i>Year ended September 30,</i>	<i>2004</i>	<i>2003</i>
Operating Revenues:		
Medicaid revenue:		
Retained by PIHP	\$ 35,179,115	\$ 34,037,020
Sub-capitated	26,159,196	27,919,726
General Fund and other:		
State grants	13,091,355	12,831,037
Program fees and earned revenue	1,014,170	2,417,169
Federal grants	1,036,787	658,423
Other revenue	585,098	452,260
Substance abuse	5,482,842	5,425,437
Total Operating Revenues	82,548,563	83,741,072
Operating Expenses:		
Program services:		
Mental illness adult population	21,594,193	22,215,879
Developmentally disabled population	20,992,959	20,558,180
Severe emotional disturbance population	5,167,849	5,172,802
Substance abuse	5,466,662	5,289,995
Sub-capitated funds paid to affiliates	26,088,382	27,004,458
Management and general	4,066,296	3,521,629
Total Operating Expenses	83,376,341	83,762,943
Operating Loss	(827,778)	(21,871)
Non-Operating Revenue (Expense):		
Investment income	146,780	169,820
Interest expense	(50,525)	(55,687)
Total Non-Operating Revenue	96,255	114,133
Transfers from Primary Governmental Unit	1,550,400	1,550,400
Increase in Net Assets	818,877	1,642,662
Net Assets, beginning of year, as restated (Note 11)	9,250,110	7,565,118
Equity Transfer from Primary Governmental Unit (Note 1)	-	42,330
Net Assets, end of year	\$ 10,068,987	\$ 9,250,110

See accompanying notes to financial statements.

Kalamazoo Community Mental Health and Substance Abuse Services

Statements of Cash Flows

<i>Year ended September 30,</i>	<i>2004</i>	<i>2003</i>
Operating Activities:		
Cash received from providing services	\$ 83,630,558	\$ 84,102,239
Cash paid to suppliers and affiliates	(80,209,043)	(78,051,088)
Cash paid to employees	(38,579)	(8,178,594)
Cash Provided by (Used in) Operating Activities	3,382,936	(2,127,443)
Cash Provided by Non-Capital Financing Activities:		
Equity transfer from primary governmental unit	-	42,330
Transfers from primary governmental unit	1,550,400	1,550,400
Cash Provided by Non-Capital Financing Activities	1,550,400	1,592,730
Capital and Related Financing Activities:		
Proceeds from sale of land	37,858	-
Principal paid on mortgage payable	(102,019)	(96,857)
Interest paid on mortgage payable	(50,525)	(55,687)
Capital asset additions	(100,511)	(296,787)
Cash Used in Capital and Related Financing Activities	(215,197)	(449,331)
Investing Activities:		
Interest income	146,780	169,820
Sale of investments	4,526,721	6,651,261
Purchase of investments	(9,257,081)	(5,874,907)
Cash Provided by (Used in) Investing Activities	(4,583,580)	946,174
Increase (Decrease) in Cash	134,559	(37,870)
Cash, beginning of year	61,720	99,590
Cash, end of year	\$ 196,279	\$ 61,720

See accompanying notes to financial statements.

Kalamazoo Community Mental Health and Substance Abuse Services

Statements of Cash Flows (Concluded)

<i>Year ended September 30,</i>	<i>2004</i>	<i>2003</i>
Reconciliation of Operating Loss to		
Net Cash Provided by (Used in) Operating Activities:		
Operating loss	\$ (827,778)	\$ (21,871)
Adjustments to reconcile operating loss to		
net cash provided by (used in) operating activities:		
Depreciation and amortization	270,155	257,458
Gain on sale of land	(7,838)	-
(Increase) decrease in:		
Medicaid receivables	(12,254)	1,874,032
Client receivables	1,120,692	(1,512,865)
Due from state of Michigan	(185,737)	(707,850)
Due from sub-recipient agencies	769,111	471,773
Prepaid and other current assets	27,273	(94,521)
Other receivables	(26,443)	-
Loan origination costs	2,256	-
Increase (decrease) in:		
Accounts payable and accruals	2,420,807	(1,264,344)
Due to state of Michigan	140,304	(1,103,351)
Deferred revenue	(307,612)	(25,904)
Net Cash Provided by (Used in) Operating Activities	\$ 3,382,936	\$ (2,127,443)

See accompanying notes to financial statements.

Kalamazoo Community Mental Health and Substance Abuse Services

Notes to Financial Statements (Continued)

1. Nature of Organization

The Authority was created by the Kalamazoo County Board of Commissioners of Kalamazoo County, Michigan (primary government), to operate, control, and manage an integrated behavioral healthcare system in order to serve Kalamazoo County (the County). Prior to October 1, 1996, revenues and expenses, and the resultant assets, liabilities, and equity were blended with governmental funds and an account group in the primary government. The Authority is governed by a community mental health services board, which is appointed by the Kalamazoo County Board of Commissioners. The primary government also provides financial support annually to the Authority. Accordingly, the Authority is considered to be a component unit of the County and is discretely presented in the financial statements of the County.

On October 1, 2002, the Authority became the Prepaid Inpatient Health Plan (PIHP) to manage the delivery of a comprehensive array of specialty mental health and substance abuse services and support to a four-county region, which includes the counties of Kalamazoo, Allegan, Cass, and St. Joseph. The Authority provides services to Allegan, Cass, and St. Joseph counties by sub-capitating to these counties, mental health funds received from the state of Michigan. The Authority also provides certain administrative services and support as the PIHP.

Also, effective October 1, 2002, the Authority became the coordinating agency of substance abuse services for Kalamazoo, Barry, Branch, St. Joseph, and Van Buren counties. This responsibility was transferred to the Authority from Kalamazoo County and included an equity transfer from the County of \$42,330.

2. Significant Accounting Policies

Basis of Accounting

These financial statements have been prepared using proprietary fund accounting. Revenues and expenses are recognized on the accrual basis. Substantially all revenues and expenses are subject to accrual. The Authority follows all Governmental Accounting Standards Board (GASB) pronouncements and Financial Accounting Standards Board (FASB) statements and interpretations, Accounting Practice Bulletins (APB) opinions, and Accounting Research Bulletins issued on or before November 30, 1989, except those that conflict with a GASB pronouncement.

Revenues from premiums, state grants, client service, and federal grants are reported as operating revenues. Transactions that are capital, financing, or investing related are reported as non-operating revenues. All expenses related to operating the Authority are reported as operating expenses. Interest expense and financing costs are reported as non-operating expenses.

Investments

Investments consist primarily of commercial paper and the Municipal Investment Fund. Investments of the Authority are reported at fair value.

Kalamazoo Community Mental Health and Substance Abuse Services

Notes to Financial Statements (Continued)

Receivables and Payables

Accounts receivable, representing outstanding balances on charges for services, are considered fully collectible.

Transactions between the Authority and various departments of the state of Michigan that are representative of service provider/purchaser arrangements outstanding at year-end are reported as "due from/to state of Michigan."

Transactions between the Authority and various departments of the state of Michigan that are representative of borrowing arrangements that are outstanding at year-end are reported as "advances payable, state of Michigan."

Transactions between the Authority and sub-recipient agencies that represent the differences outstanding at year-end between amounts advanced to agencies and qualifying expenditures are included in accounts payable and accruals. All other outstanding balances between the Authority and agencies are reported as "advances to sub-recipient agencies."

Capital Assets

Capital assets are recorded at cost. Routine maintenance and repairs are charged to operations, as incurred. Upon sale or retirement, the related cost and accumulated depreciation are removed with the resulting gain or loss reflected in operations.

Depreciation is provided using the straight-line method over the following estimated useful lives:

Buildings and improvements	25-40 Years
Equipment and furniture	3-20 Years

Net Assets

Designations of net assets represent tentative management plans that are subject to change.

Medicaid Revenue

The PIHP contract is for a two-year period beginning October 1, 2002, and is subject to cancellation by the state of Michigan upon 30 days written notice. Medicaid revenue is received monthly and is recognized as revenue during the period in which the Authority is obligated to provide services to members.

Deferred Revenue

Deferred revenue represents the portion of the current year CMH contract amount and other grant revenues that may be carried over to and expended in subsequent fiscal years. Such carryover is generally limited to 7.5% of the CMH contract amount.

Kalamazoo Community Mental Health and Substance Abuse Services

Notes to Financial Statements (Continued)

Claims Liability

Under the State of Michigan's MCSSP, the Authority is responsible for processing and paying all claims related to required services provided. The cost of these services includes estimates of payments to be made on claims reported and estimates of services rendered but not reported to the Authority as of the balance sheet date.

Long-Term Obligations

Loan origination costs of long-term indebtedness are deferred and amortized over the life of the respective loan using the straight-line method.

Compensated Absences

Employees are granted sick and vacation leave in varying amounts based on length of service. Employees may accumulate up to a predetermined amount of vacation and sick leave in any one year. Upon termination, employees are paid for unused vacation and sick at their current rates. It is the Authority's policy to recognize the cost of vacation and sick pay at the time the liability is incurred.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Classification

Certain amounts as previously reported have been reclassified to conform to current year classifications.

3. Cash and Investments

Cash includes cash on hand and held in banks. The balances at September 30, 2004, are as follows:

	<i>Carrying Amount</i>	<i>Bank Balance</i>
Insured (FDIC or FSLIC)	\$ 100,000	\$ 100,000
Uninsured	96,279	99,548
	<u>\$ 196,279</u>	<u>\$ 199,548</u>

Kalamazoo Community Mental Health and Substance Abuse Services

Notes to Financial Statements (Continued)

Statutes require that certificates of deposit, savings accounts, deposit accounts, and depository receipts are made with banks doing and having a place of business in the state of Michigan which are also members of a federal or national insurance corporation.

Statutes authorize the Authority to invest in obligations of the U.S. Treasury, agencies, and instrumentalities, commercial paper rated prime at the time of purchase and maturing not more than 270 days from the date of purchase, and certificates of deposit or savings deposit receipts issued by any state or national bank authorized to operate a bank in Michigan.

The Municipal Investment Fund is an investment pool operated under Michigan Public Act 367 of 1982. This Act restricts the fund's investment to bankers' acceptances, certificates of deposits of FDIC member banks, U.S. Government direct obligations, the highest grade of commercial paper, and repurchase agreements secured by U.S. Government obligations. The obligations are "uncollateralized" as the underlying securities are held by the bank in its name.

The Authority's investments at September 30, 2004, are categorized to give an indication of the level of risk assumed by the entity at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the Authority or its agent in the Authority's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agency in the Authority's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agency but not in the Authority's name.

	<i>Category</i>			<i>Reported Amount</i>
	<i>1</i>	<i>2</i>	<i>3</i>	
U.S. Government Securities	\$7,555,966	\$ -	\$ -	\$ 7,555,966
Municipal Investment Fund				7,715,585
Total Investments				\$ 15,271,551

There were no significant variations in the amount, method, or type of investments made during the year.

Kalamazoo Community Mental Health and Substance Abuse Services

Notes to Financial Statements (Continued)

4. Capital Assets

Capital asset activity was as follows:

	<i>Balance, October 1, 2003</i>	<i>Increase</i>	<i>Decrease</i>	<i>Balance, September 30, 2004</i>
Capital assets not depreciated:				
Land	\$ 398,173	\$ -	\$ 30,020	\$ 368,153
Construction in progress	1,960	54,292	-	56,252
Total capital assets not depreciated	400,133	54,292	30,020	424,405
Capital assets depreciated:				
Buildings	1,486,004	-	-	1,486,004
Equipment and furniture	1,891,489	34,995	41,922	1,884,562
Site improvements	1,187,219	11,224	-	1,198,443
Vehicles	159,953	-	-	159,953
Total capital assets depreciated	4,724,665	46,219	41,922	4,728,962
Less accumulated depreciation:				
Buildings	470,297	120,119	-	590,416
Equipment and furniture	1,522,826	116,641	41,922	1,597,545
Site improvements	3,362	4,357	-	7,719
Vehicles	65,954	29,038	-	94,992
Total accumulated depreciation	2,062,439	270,155	41,922	2,290,672
Capital assets depreciated, net	2,662,226	(223,936)	-	2,438,290
Total Invested in Capital Assets, Net	\$ 3,062,359	\$ (169,644)	\$ 30,020	\$ 2,862,695

Depreciation expense was charged to functions as follows:

<i>September 30,</i>	<i>2004</i>	<i>2003</i>
Mental illness adult population	\$ 144,406	\$ 156,101
Developmentally disabled	60,539	30,951
Severe emotional disturbance	15,817	15,151
Management and general	45,295	49,589
Substance abuse	4,098	3,410
Total Depreciation Expense	\$ 270,155	\$ 255,202

Kalamazoo Community Mental Health and Substance Abuse Services

Notes to Financial Statements (Continued)

5. Long-Term Debt

Long-term debt consists of the following:

<i>September 30,</i>	<i>2004</i>	<i>2003</i>
Mortgage payable to bank, secured by real estate and full faith and credit of the Authority, due in semi-annual installments of \$76,272, including interest at 5.26%, due October, 2011.	\$ 883,712	\$ 985,731
Less current maturities	107,455	102,019
Total Long-Term Debt, less current maturities	\$ 776,257	\$ 883,712

Mortgage payable activity for the year ended September 30, 2004, was as follows:

	<i>Balance October 1, 2003</i>	<i>Increase</i>	<i>Decrease</i>	<i>Balance September 30, 2004</i>
Mortgage payable issued in 2002	\$ 985,731	\$ -	\$ 102,019	\$ 883,712

The annual requirement to pay principal and interest on the mortgage payable to maturity is as follows:

<i>Year ending September 30,</i>	<i>Interest Payments</i>	<i>Principal Payments</i>	<i>Total</i>
2005	\$ 45,089	\$ 107,455	\$ 152,544
2006	39,362	113,182	152,544
2007	33,330	119,214	152,544
2008	26,977	125,566	152,543
2009	20,286	132,258	152,544
2010-2011	19,051	286,037	305,088
Total	\$ 184,095	\$ 883,712	\$ 1,067,807

Kalamazoo Community Mental Health and Substance Abuse Services

Notes to Financial Statements (Continued)

6. Net Assets

The Authority's net assets consist of the following:

<i>September 30,</i>	<i>2004</i>	<i>2003</i>
Net Assets:		
Total invested in capital assets	\$ 2,862,695	\$ 3,062,359
Less:		
Current maturities of long-term debt	(107,455)	(102,019)
Long-term debt, net of current maturities	(776,257)	(883,712)
 Total invested in capital assets, net of related debt	 1,978,983	 2,076,628
Unrestricted:		
Designated:		
Equipment replacement	859,952	636,016
Programs and employee benefits	1,575,143	2,778,035
Substance abuse	98,035	88,594
Managed care risk corridor	3,142,492	3,410,521
Undesignated	2,414,382	260,316
 Total unrestricted	 8,090,004	 7,173,482
 Total Net Assets	 \$ 10,068,987	 \$ 9,250,110

7. Retirement Plans

Defined Benefit Plan

Plan Description

The Authority's defined benefit pension plan provides retirement, disability, and death benefits to plan members and beneficiaries. The Authority participates in the Kalamazoo County Employees' Retirement System, a Public Employee Retirement System (the Plan), which is an agent multiple-employer plan administered by the Kalamazoo County Employees' Retirement System.

The Authority establishes and amends the benefit provisions of the participants in the Plan. Separate financial statements are issued and may be obtained by writing the Kalamazoo County Employees' Retirement System, 201 W. Kalamazoo Avenue, Kalamazoo, Michigan 49007, or by calling 269-384-8008.

Kalamazoo Community Mental Health and Substance Abuse Services

Notes to Financial Statements (Continued)

Funding Policy

The Authority is required to contribute at an actuarially determined rate. Employees are currently not required to contribute to the Plan. The contribution requirements of the Authority are established and may be amended by the Authority trustees.

Annual Pension Cost

For the years ended September 30, 2004 and 2003, the Authority's annual pension cost of \$1,013,247 and \$982,647, respectively, was equal to the required and actual contributions. The required contribution was determined as part of the December 31, 2003 and 2002, actuarial valuations, respectively, using the entry age actuarial cost method. The actuarial assumptions included (a) 7.75% investment rate of return (net of investment expenses), which includes an inflation component of 4.5% and (b) projected salary increases of 4.5% to 8.6% per year. The remaining amortization period for all liabilities at December 31, 2003, is 12 years.

Trend Information

Trend information consists of the following:

<i>Fiscal Year Ended September 30,</i>	<i>Annual Pension Cost (APC)</i>	<i>Percentage of APC Contributed</i>	<i>Net Pension Obligation</i>
2002	\$ 501,995	100%	\$ -
2003	\$ 982,647	100%	\$ -
2004	\$ 1,013,247	100%	\$ -

Required supplementary material regarding the Plan is presented on Page 20.

Defined Contribution Plan

When the Authority became a separate legal entity, its employees elected not to participate in the Social Security System. To provide to its employees a similar retirement benefit, the Authority sponsored a 401(h) plan. Under the terms of this Plan, which is a defined contribution plan, both the Authority and its employees are required to contribute the same amounts that would be due if the Authority had elected to participate in the Social Security System. For the years ended September 30, 2004 and 2003, the Authority and its employees each contributed \$218,469 and \$252,408, respectively, on covered payroll of \$7,016,313 and \$8,205,416, respectively. The Authority is not a fiduciary with respect to the Plan and, accordingly, assets and liabilities of the Plan have been excluded from these financial statements.

Kalamazoo Community Mental Health and Substance Abuse Services

Notes to Financial Statements (Continued)

Other Postemployment Benefits

In addition to the pension benefits described above, the Authority provides postemployment health benefits in accordance with the requirements of an Authority resolution. Active participants of the defined benefit pension plan that retire at age 60 with eight or more years of service are eligible for this benefit. Currently, nine retirees are eligible for this benefit.

The Authority purchases commercial health insurance to provide this benefit, which is provided for the life of the retiree. The insurance policy provides coverage of medical expenses and costs for all pre-Medicare age retirees similar to the benefit available to active employees.

A reduced coverage policy, or Medicare supplement, is provided for each retiree eligible for Medicare. Dependent coverage, if requested, is financed by contributions by the retiree. Expenses for postemployment benefits are recognized on the pay-as-you-go method. During 2004 and 2003, expenses of \$116,431 and \$36,741, respectively, were recognized.

8. Claims Arising From Risks of Loss

The risks of loss arising from general liability, property, and crime, are minimized through participation in the Michigan Municipal Risk Management State Pool, a public entity risk pool currently operating as a common risk management program for government entities in the state of Michigan.

The Authority pays annual premiums to the state pool for insurance coverage up to a maximum of \$10,000,000 for aggregate general liability claim and \$5,205,000 for property and crime claims. In the event of unusually high claims, the state pool may assess member government units on a retroactive basis. The Authority purchases commercial insurance for risks of loss arising from employee health, medical, and workers' compensation claims.

9. Contingencies

Amounts received or receivable from grant agencies or third-party payers (principally Medicaid) are subject to audit and adjustment by grantor agencies or fiscal intermediaries. Any disallowed claims, including amounts already collected, may constitute a liability of the Authority. The amount, if any, or expenditures which may be disallowed by the grantor or, of excess reimbursements as determined by a fiscal intermediary, cannot be determined at this time, although the Authority expects such amounts, if any, to be immaterial.

Kalamazoo Community Mental Health and Substance Abuse Services

Notes to Financial Statements (Concluded)

**10. Financing of
Managed
Care Risk Loss
Corridor**

Effective October 1, 1998, the Authority began operating as a managed care provider to the state of Michigan. The Authority bears all costs up to 107.5% of the annual negotiated contract. All costs above 107.5% are borne by the state of Michigan. The Authority has designated a portion of net assets (see Note 6) and funded an amount to cover the risk exposure under its contract with the state of Michigan.

**11. Prior Period
Adjustment**

During 2004, the Authority determined that prior year Medicaid savings and General Fund carryforward funds should have been deferred to the subsequent year instead of recognized as revenue. As a result, the Authority has decreased net assets by \$1,598,096 at October 1, 2003, to reflect the correction of this error for fiscal year 2002. Previously reported revenue for fiscal year 2003 and current liabilities and net assets at September 30, 2003, have been restated and increased by \$679,500 to reflect the correction of this error in fiscal year 2003. The adjustment to net assets at October 1, 2003, is as follows:

Net Assets at September 30, 2002, as previously reported	\$ 9,163,214
<u>Prior period adjustment</u>	<u>(1,598,096)</u>
Net Assets at October 1, 2002, as restated	\$ 7,565,118

Supplemental Material

Kalamazoo Community Mental Health and Substance Abuse Services

Analysis of Funding Progress – Employee Retirement System

	(a)	(b)	(b-a)	(a/b)	(c)	((b-a)/c)
<i>Actuarial Valuation Date December 31,</i>	<i>Actuarial Value of Assets</i>	<i>Actuarial Accrued Liability (AAL) Entry Age</i>	<i>Unfunded AAL (UAAL)</i>	<i>Funded Ratio</i>	<i>Covered Payroll</i>	<i>UAAL as a Percentage of Covered Payroll</i>
1997	\$ 9,115,383	\$ 7,700,948	\$ (1,414,435)	118.4	\$ 6,309,426	(22.4)
1998	10,853,291	8,581,266	(2,272,025)	126.5	6,703,157	(33.9)
1999	12,839,276	9,891,968	(2,947,308)	129.8	6,948,912	(42.4)
2000	15,080,018	11,571,627	(3,508,391)	130.3	7,246,718	(48.4)
2001	17,053,135	13,017,823	(4,035,312)	131.0	7,458,238	(54.1)
2002	17,695,566	17,223,784	(471,782)	102.7	8,686,961	(5.4)
2003	16,153,856	13,782,313	(2,371,543)	117.2	7,395,382	(32.1)



Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Kalamazoo Community Mental Health and Substance Abuse Services
Kalamazoo, Michigan

We have audited the financial statements of Kalamazoo Community Mental Health and Substance Abuse Services (the Authority), as of and for the year ended September 30, 2004, and have issued our report thereon dated January 27, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to management in a separate letter dated January 27, 2005.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the board, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

BDO Seidman, LLP

Certified Public Accountants

January 27, 2005



BDO Seidman, LLP
Accountants and Consultants

211 East Water Street, Suite 300
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Telephone: (269) 382-0170
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Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133

Kalamazoo Community Mental Health and Substance Abuse Services
Kalamazoo, Michigan

Compliance

We have audited the compliance of Kalamazoo Community Mental Health and Substance Abuse Services (the Authority) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2004. The Authority's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and *OMB Circular A-133* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Authority's compliance with those requirements.

In our opinion, the Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2004.

Internal Control Over Compliance

The management of the Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with *OMB Circular A-133*.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the board, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

BDO Seidman, LLP

Certified Public Accountants

January 27, 2005

Kalamazoo Community Mental Health and Substance Abuse Services

Schedule of Expenditures of Federal Awards Year Ended September 30, 2004

<i>Federal Grantor Pass Through Grantor Program Title</i>	<i>Federal CFDA Number</i>	<i>Federal Expenditures</i>
U.S. Department of Health and Human Services:		
<i>Passed Through Michigan Department of Community Health:</i>		
Projects for Assistance in Transition from Homelessness	93.150	\$ 78,205
Medical Assistance Programs	93.778	196,528
Block Grants for Community Mental Health Services:		
Wrap-around Respite Grant	93.958	12,457
Juvenile Justice Diversion Project	93.958	50,000
MIFPI Block Grant	93.958	50,000
Keystone Equipment	93.958	20,471
Ministry with Community - Homeless Outreach	93.958	13,261
MRC - Clubhouse Diabetes	93.958	22,540
MRC - Clubhouse Training	93.958	6,300
ACT Peer Support Advocate	93.958	12,655
ACT Peer Support Specialist - Co-Occurring	93.958	12,655
ACT Peer Support Specialist - Case Management	93.958	12,655
PHP/SA Co-Occurring	93.958	102,563
Anti-Stigma Project - Supported Education	93.958	26,184
		341,741
Block Grants for the Prevention and Treatment of Substance Abuse	93.959	3,259,745
<i>Passed Through Michigan Family Independence Agency -</i>		
Promoting Safe and Stable Families	93.556	70,000
Total U.S. Department of Health and Human Services		3,946,219
U.S. Department of Education -		
<i>Passed Through Michigan Department of Education -</i>		
Special Education - Grants for Infants and Families with Disabilities	84.181	84,664
U.S. Department of Housing and Urban Development:		
Direct Program - Supportive Housing Program	14.235	222,274
Direct Program - Shelter Plus Care Housing	14.238	10,800
		233,074
Total Expenditures of Federal Awards		\$ 4,263,957

Kalamazoo Community Mental Health and Substance Abuse Services

Schedule of Federal Pass-Through Funds to Subrecipients

<i>Program Name</i>	<i>Federal CFDA Number</i>	<i>Current Year</i>
		\$
Ministry with Community - Homeless Outreach	93.958	13,261
MRC - Clubhouse Diabetes	93.958	22,540
MRC - Clubhouse Training	93.958	6,300
ACT Peer Support Advocate	93.958	12,655
ACT Peer Support Specialist - Co-Occurring	93.958	12,655
ACT Peer Support Specialist - Case Management	93.958	12,655
Block Grants for the Prevention and Treatment of Substance Abuse	93.959	1,121,367

Kalamazoo Community Mental Health and Substance Abuse Services

Note to Schedule of Expenditures of Federal Awards Year Ended September 30, 2004

Note 1

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Authority and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the financial statements.

See accompanying independent auditors' report.

Kalamazoo Community Mental Health and Substance Abuse Services

Summary of Auditors' Results and Schedule of Findings and Questioned Costs

Section I – Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? No
- Reportable condition(s) identified that are not considered to be material weaknesses? None Reported

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? No
- Reportable condition(s) identified that are not considered to be material weaknesses? None Reported

Type of auditors' report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) or *Circular A-133*? No

Identification of major programs:

<i>CFDA Number(s)</i>	<i>Name of Federal Program or Cluster</i>
-----------------------	---

93.959	Block Grants for the Prevention and Treatment of Substance Abuse
93.958	Block Grants for Community Mental Health Services

Dollar threshold used to distinguish between Type A and Type B programs \$ 300,000

Auditee qualified as low-risk auditee? Yes

Section II – Financial Statement Findings

No matters were reported.

Section III – Federal Award Findings and Questioned Costs

No matters were reported.

Kalamazoo Community Mental Health and Substance Abuse Services

Substance Abuse Prevention and Treatment Summary of Budgeted, Reported, and Audited Amounts – September 30, 2004

<i>Category</i>	<i>Budgeted</i>	<i>Reported</i>	<i>Audited</i>	<i>Reported/ Audited Variance</i>	<i>Local Match</i>
Central Administration:					
Salaries and wages	\$ 253,092	\$ 240,879	\$ 240,879	\$ -	\$ -
Fringe benefits	99,566	104,396	104,396	-	-
Travel	10,702	11,722	11,722	-	-
Supplies and materials	7,000	7,120	7,120	-	-
Other expenditures	154,355	154,683	154,683	-	-
Indirect cost	-	-	-	-	-
Other cost distributions	-	-	-	-	-
Sub total	524,715	518,800	518,800	-	-
Less:					
Central administrative fees and collections	-	-	-	-	-
Medicaid	139,873	144,159	144,159	-	-
Total Central Administration Expenditures	384,842	374,641	374,641	-	-
Subcontractors' Expenditures	4,364,804	4,715,104	4,807,975	92,871	-
Less:					
Subcontractors' fees and collections	115,146	38,515	182,674	144,159	182,674
Medicaid (PEPM)	1,185,699	1,308,369	1,099,500	(208,869)	-
Medicaid savings carryover	-	-	61,409	61,409	-
MI Child	-	-	3,990	3,990	-
Adult benefit waiver	-	-	92,182	92,182	-
Total Subcontractors' Expenditures	3,063,959	3,368,220	3,368,220	-	182,674
Total Funds Required	3,448,801	3,742,861	3,742,861	-	182,674
Less - First Source Funding:					
Local PA2 funding	9,835	355,947	322,219	(38,728)	322,219
Other local	298,765	71,327	52,829	(18,498)	52,829
Other	1,280	11,522	110,569	99,047	-
Total First Source Funding	309,880	438,796	485,617	41,821	375,048
Amounts to be Paid by State Agreement	\$ 3,138,921	\$ 3,304,065	\$ 3,257,244	\$ 41,821	\$ 557,722
Total DCH Payments to the CA	\$ -	\$ 3,257,245	\$ 3,257,245	\$ -	\$ -
(Over) Under Payment	\$ -	\$ 46,820	\$ (1)	\$ -	\$ -
Reconciliation to the Financial Statements					
Net audited expenditures					
(from Total Funds Required above)	\$ 3,448,801	\$ 3,742,861	\$ 3,742,861		
Add audited fees and collections	115,146	38,515	182,674		
Add Medicaid	1,325,572	1,452,528	1,305,068		
Total Audited Expenditures per this Schedule	\$ 4,889,519	\$ 5,233,904	\$ 5,230,603		

Program	Final Budget (net of Fees and Medicaid)	Reported (net of Fees and Medicaid)	Audited Expenditures					
			Gross	Less Medicaid	Less Fees	Less Adult Benefit Waiver	Less MI Child	Net
Central Administration	\$ 384,842	\$ 374,641	\$ 518,800	\$ 144,159	\$ -	\$ -	\$ -	\$ 374,641
Prevention	1,078,363	1,091,686	1,116,766	-	25,080	-	-	1,091,686
Treatment	1,615,424	1,711,891	2,887,937	1,068,210	72,514	92,182	3,990	1,651,041
Women's Specialty/ CDR	251,741	466,212	688,142	96,000	85,080	-	-	507,062
HIV/Aids	75,000	75,000	75,000	-	-	-	-	75,000
State Disability Assistance	43,431	43,431	43,431	-	-	-	-	43,431
Tobacco Retailers Inspection	-	-	-	-	-	-	-	-
	\$ 3,448,801	\$ 3,762,861	\$ 5,330,076	\$ 1,308,369	\$ 182,674	\$ 92,182	\$ 3,990	\$ 3,742,861

Reconciliation of PA2 Funds:

Beginning balance	\$ 473,203
Additions	674,959
Expended	(413,777)
Ending balance	\$ 734,385

Kalamazoo Community Mental Health and Substance Abuse Services

Substance Abuse Prevention and Treatment Schedule of Expenditures and Funding Sources by Program – September 30, 2004

<i>Funding Sources</i>							<i>Reported / Audited Variance</i>
<i>State</i>	<i>Other Local</i>	<i>PA2</i>	<i>Direct Federal</i>	<i>Other</i>	<i>Total Funding</i>		
\$ 374,641	\$ -	\$ -	\$ -	\$ -	\$ 374,641	\$ -	
875,066	41,542	175,078	-	-	1,091,686	-	
1,497,446	-	144,334	-	70,111	1,711,891	(60,850)	
391,660	11,287	2,807	-	40,458	446,212	60,850	
75,000	-	-	-	-	75,000	-	
43,431	-	-	-	-	43,431	-	
-	-	-	-	-	-	-	
\$ 3,257,244	\$ 52,829	\$ 322,219	\$ -	\$ 110,569	\$ 3,742,861	\$ -	

Reconciliation of Medicaid Managed Care Funds (PEPM):

PEPM payments received	\$ 1,317,970
Medicaid savings c/o	61,409
Funds expended	(1,305,068)
Medicaid savings C/F	(65,899)
Prior ISF	88,594
Interest earned on ISF	1,027
Balance on hand	\$ 98,033